## Dear Baron Global Advantage Fund Shareholder:

### Performance

Baron Global Advantage Fund® (the Fund) gained 6.4% (Institutional Shares) in the second quarter of 2023, which compares to returns of 6.2% for the MSCI ACWI Index (the Index), and 9.2% for the MSCI ACWI Growth Index, the Fund's benchmarks.

**Table I.**
**Performance†**
**Annualized for periods ended June 30, 2023**

| | Baron Global Advantage Fund Retail Shares[1,2] | Baron Global Advantage Fund Institutional Shares[1,2] | MSCI ACWI Index[1] | MSCI ACWI Growth Index[1] |
|---|---|---|---|---|
| Three Months[3] | 6.34% | 6.41% | 6.18% | 9.20% |
| Six Months[3] | 16.28% | 16.43% | 13.93% | 24.25% |
| One Year | 7.63% | 7.91% | 16.53% | 23.05% |
| Three Years | (9.17)% | (8.94)% | 10.99% | 9.57% |
| Five Years | 4.59% | 4.86% | 8.10% | 10.45% |
| Ten Years | 10.58% | 10.83% | 8.75% | 11.00% |
| Since Inception (April 30, 2012) | 10.05% | 10.30% | 8.85% | 10.67% |

We have seen an unusually wide dispersion of returns in the first half of 2023. The *Magnificent Seven* – **NVIDIA** +190%, **Tesla** +113%, Meta +138%, Apple +50%, Amazon +55%, Microsoft +43%, and Alphabet +36% led the surging NASDAQ Composite Index to a 32.3% gain, while the Dow Jones Industrial Average advanced just 4.9%. Large-cap stocks gained 16.7%, as measured by the Russell 1000 Index, while small-cap stocks were only up 8.1%, as measured by the Russell 2000 Index. The S&P 500 Index advanced a respectable 16.9%, but would have only been up about 6% without the massive gains of the *Magnificent Seven*.

The Information Technology (IT) sector had its strongest half-year performance in more than 20 years, gaining 40.2% and outperforming the Index by 26.3% (including IT), or by 32.0% if we exclude IT from the Index. From a market cap perspective, two-thirds of the Index's 13.9% return came

ALEX UMANSKY
PORTFOLIO MANAGER

Retail Shares: BGAFX
Institutional Shares: BGAIX
R6 Shares: BGLUX

from giant caps which were up 20.4%. While our giant cap investments gained more than double that at 44.0%, we did not own enough of them.

Returns were similarly dispersed from a geographic perspective. Looking at the MSCI ACWI Index at quarter end, the U.S. was over 60% of the Index and was up a solid 16.8% as was Brazil. Argentina was up 40.0% thanks solely to **MercadoLibre**'s strong performance, and the country represents the Fund's largest geographic overweight, at 875bps. However, China was down 5.4%, Hong Kong was down 7.4%, and Israel was down 3.2% in the Index. In that context, we perceive the Fund's six-months gain of 16.4% as reasonable and hope that this is the beginning of the turnaround.

The second quarter was characterized by a continuation of trends we saw earlier in the year. The macro-related uncertainty remains elevated and continues to point to a wide range of outcomes. The yield curve is still

*Performance listed in the table above is net of annual operating expenses. The gross annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2022 was 1.19% and 0.93%, respectively, but the net annual expense ratio was 1.15% and 0.90% (net of the Adviser's fee waivers), respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser reimburses certain Fund expenses pursuant to a contract expiring on August 29, 2033, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.*

† The Fund's 3-, 5-, and 10-year historical performance was impacted by gains from IPOs. There is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs will be the same in the future.

1 The **MSCI ACWI Index Net (USD)** is designed to measure the equity market performance of large and midcap securities across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The **MSCI ACWI Growth Index Net (USD)** is designed to measure the equity market performance of large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries and 24 Emerging Markets (EM) countries. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The indexes and the Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

2 The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

3 Not annualized.

inverted as the Fed tries to thread the needle between bringing inflation under control and not driving the U.S. economy into a recession. Inflation is clearly slowing down as supply chains improve following the shocks of COVID-19 and the Ukraine war. The most recent reading of the CPI (for the year ended June 2023) came in at 3.0%, the lowest reading in over two years. According to an analysis by UBS[1], headline *global inflation is now below pre-pandemic levels* and core inflation has reversed two-thirds of the pandemic run up and the improvement is in both goods and services. As always, we have no idea how many more hikes the Fed has in store for us before it ends the most significant interest rate hiking cycle in over 40 years, but it is clear to everyone that we are inching closer to the end of it with every passing day. Based on CME Group's Fed Watch[2], there is a 54% chance for another 25bps rate hike by the end of the year, and 30% probability for two more 25bp hikes (which means 70% probability of fewer hikes than that). However, the bell curve starts shifting to the left, as we get into 2024, so that by the end of the year, the middle of the curve is at 4.00% to 4.25%, or *100bps lower than current rates*. The jobs report suggests that the Fed rate hikes are having an impact, as monthly job openings have dipped below 10 million a few times in recent months after being above that number for two years. After the gloomy outlook investors had at the end of 2022, markets are up significantly from the bottom, with the S&P 500, the MSCI ACWI, and the MSCI ACWI Growth Indexes now technically in bull market territory.

From a performance attribution perspective, sector allocation contributed 360bps to the Fund's relative returns during the second quarter, whereas stock selection detracted 338bps. IT, Financials, and Health Care were three of our best sectors, generating 290bps of relative gains. Not holding any investments in Consumer Staples, Energy, Utilities, and Real Estate contributed an additional 106bps. This was largely offset by poor performance in Consumer Discretionary, which detracted 331bps, mostly due to the write down of our investment in the Indian education technology company **Think & Learn**, and the correction in the shares of MercadoLibre, which gave up a part of its first quarter's massive gain.

From a geographic perspective, our developed market holdings contributed 262bps to our relative results, driven entirely by stock selection, while our emerging market investments detracted 101bps, and our Argentina investments, which are classified under "other markets" cost us another 128bps. The U.S. and Canada were by far our best performing countries adding 413bps combined to relative returns, driven entirely by stock selection (though a sizable underweight to the U.S. and a modest overweight to Canada actually detracted 39bps). This strong result was offset by our underperforming investments in India, the U.K., and Argentina, which detracted 465bps combined.

Looking at the contribution of individual investments, we had 26 contributors and 13 detractors in the second quarter. NVIDIA, **Shopify**, **Bajaj**, and **Datadog** were our four largest winners contributing over 100bps each to absolute returns, while **Schrodinger**, **Tesla**, **Snowflake**, and **BILL Holdings** added over 70bps each. **InPost** and **Zscaler** rounded out the top 10 gainers in the Fund contributing 40bps each to quarterly returns. On the other side of the ledger declines in the share prices of **Endava,** MercadoLibre, **Illumina**, and **EPAM**, detracted between 50bps and 150bps and the write-down in the value of privately held shares of **Think & Learn** cost us another 235bps.

Other than NVIDIA, which is seeing material tailwinds, our companies reported consistent trends for the past several quarters – macro headwinds are still causing a cautious spending environment; sales cycles remain elongated as customers are taking longer to decide and require higher level approvals for lower budgetary commitments, which is driving lower conversion rates to signed contracts. On the other hand, the leading solution providers are gaining market share as customers are consolidating spending on their top vendors. These are the companies we tend to favor in the Fund. As leading platform companies gain market share, they widen their competitive moats – the more customers they win, the more data they get, enabling them to continuously improve their products over time, which in turn should help them win more customers, reinforcing the cycle (see our first quarter letter for a more detailed discussion on this topic). Here are a few examples of supporting commentary from our companies during recent public calls:

- **CrowdStrike**'s CEO on the company's quarterly earnings call: "*Another megatrend continuing to unfold in cybersecurity is consolidation. The macro backdrop has only accelerated the need for customers to reduce vendor sprawl, reduce agents, reduce cost, and protect their businesses with the best of SaaS platform… In Q1,* ***we closed over 50% more deals involving 8 or more modules compared to a year ago****… Over the past few months, I have personally met with many of our customers, prospects, and partners. These conversations all centered on the same topic.* ***Customers want to consolidate their security stack with Falcon*** *and drive greater cost efficiencies while unlocking new capabilities.*"
- **Datadog**'s CFO at a William Blair conference: "*What we've been finding over time is, there's been a* ***steady consolidation away from other point solutions or observability towards Datadog. That appears to be accelerating****, because they can both increase the functionality of the platform by having it integrated and save money by consolidating.*"

While macro pressures remain for now, we are seeing a stabilization along with an increase in profit margins, as our companies become leaner and reduce the levels of reinvestment back into their businesses in the near term. Across the Fund, during the second quarter, revenue expectations for 2023 have *increased by 3.5%* on average, *while margin expectations have risen by 148bps*[3], driving an *overall 8.6% uplift to operating income expectations for 2023*. Excluding NVIDIA, revenue expectations remain unchanged, while margin expectations are up by 86bps.

**Is Generative Artificial Intelligence (GenAI) real? Is it material? Is it sustainable?**

We believe the answer to all three of these questions is yes. Ever since ChatGPT burst onto the scene in November of 2022, the buzz and excitement in the investment community has been overshadowing the healthy skepticism of many Wall Street analysts and executives who were pointing out lack of clear business models or tangible evidence of broader enterprise adoption in any quantifiable way. And then NVIDIA reported its first quarter results and offered the guidance "heard around the world." The company's guidance for the July quarter revenues was for $11 billion, which compared to consensus expectations of $7 billion and the first quarter's revenues of $7.2 billion. We cannot recall a comparably large percentage sequential revenue revision for a company of this size… ever. Now add to

[1] UBS note from 06/30/2023 - Global Economic Perspectives "The state of global inflation".
[2] https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html
[3] Based on weighted average FactSet consensus estimates for our holdings.

this everything we just described about the current economic environment with elongated sales cycles and lower closure rates, and it plainly baffles the mind. How did the company explain what was happening? **GenAI!**

In November of 2018, Ron Baron, Michael Baron, Mike Lippert, Ashim Mehra, Ishay Levin, Guy Tartakovsky, and I visited NVIDIA's headquarters in Santa Clara, California. NVIDIA is the leading fabless semiconductor company focused on the design and development of Graphics Processing Units (GPUs) that are used in high-end computers for gaming and servers that run data centers. Jensen Huang, the company's CEO, was incredibly generous with his time and spent a few hours with us in a classroom setting (among other things) explaining how large of an opportunity AI was and why no other company was better positioned to benefit from this paradigm shift than NVIDIA. Jensen literally drew a picture for us on his whiteboard (see below) suggesting that the accelerating power of computing will result in a 100x improvement over the next 10 years. Well… he was wrong. His company's GPUs got there in less than five.

Over the last few years our thesis on NVIDIA has been that it will be the biggest beneficiary of AI entering the mainstream because its GPUs give it a de facto monopoly in AI training. The well-documented slowdown in Moore's Law and Dennard scaling (doubling of computing power every 18 months for the same price) has significantly constrained the growth of supply at a time when demand for accelerated computing power is exploding. NVIDIA's data center revenues came in at $4.3 billion in the first quarter and accounted for the majority of the guidance raise, essentially implying a *near doubling of data center revenues… sequentially!*

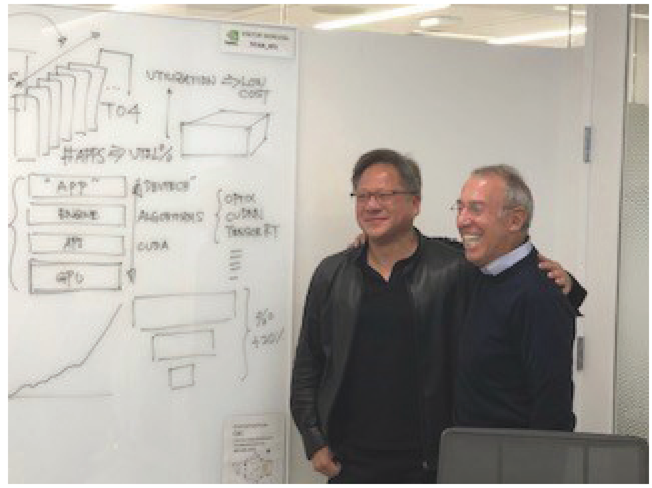
*"The AI revolution is officially here!"* – proclaimed Seeking Alpha in early July.

*"AI could contribute $15.7 trillion to the economy in 2030. That's more than the current output of China and India combined"* – PriceWaterhouseCoopers.

*"97% of our customers said GenAI will be transformative to their company and industry, and 67% of organizations are planning to increase their level of spending in technology and prioritize investments in data and AI."* – Accenture on its most recent quarterly earnings call while simultaneously disclosing over 100 ongoing GenAI projects with customers and its own $3 billion investment in AI.

We have explained the significance and importance of Microsoft's/Open AI ChatGPT over the last two quarterly letters. Microsoft's AI copilots, ServiceNow's AI-based Now Assist, Adobe's Firefly for creators and marketers, Snowflake's collaboration with NVIDIA and container services in Snowpark enabling customers to train and run domain-specific AI-models on Snowflake's platform using customers' own proprietary data. And so on, and so forth… suffice it to say, there is now plenty of *tangible evidence of broader enterprise adoption*.

The undeniable hype notwithstanding, we think GenAI is real. We think it is definitely material. And not only do we believe it is sustainable, but we also recognize how early we are in this transformation. This is why we are not selling our NVIDIA stock even though it appreciated 190% in the first six months of the year. We often talk about pattern recognition. Remember Lou Gerstner's estimate of how many personal computers were going to be sold in the entire world? There are more recent examples too. The iPhone was introduced in June of 2007. Its revenues in 2013 were 3x of consensus expectations in 2009. Tesla's revenues in 2020 exceeded initial estimates from 2012 by 5x.




There is of course another side to disruptive change.

*"Since March, we saw a significant spike in student interest in ChatGPT. We now believe it's having an impact on our new customer growth rate."* – CEO of Chegg, an education technology company, on its quarterly earnings call in May of 2023.

The next day, Chegg's stock lost almost half of its value. In the days that followed, several sell-side analysts published reports listing baskets of companies they perceived as being at risk of becoming the next Chegg. Predictably, many investors chose to shoot first and ask questions later, as the stocks of Adobe, **Wix**, **Fiverr**, Endava, EPAM and others sold off. While some companies, such as Adobe, have quickly recovered lost ground by introducing their own AI products, reporting solid financial results, or successfully changing the narrative, many have not. The digital IT service providers, Endava and EPAM, are in that latter camp. The bear thesis on these companies is that generative AI will make developers more productive, and since Endava and EPAM's business models are mostly based on time and materials, the productivity boost will negatively impact them. The fact that both companies are experiencing near-term cyclical headwinds due to the current complex macro environment (and of course, EPAM has been significantly disrupted by the war in Ukraine), feeds right into these concerns, making them impossible to disprove in the near term. Both companies are among our top detractors for the second quarter and year-to-date. While we acknowledge there is a range of possible outcomes here, we believe both companies offer compelling long-term risk/reward profiles and hence do not view their 30%-plus year-to-date declines as permanent losses of capital. Here are a few reasons that underpin our conviction:

- The demand for digitization will likely increase due to the rise of AI as most enterprises are still at the earlier stages of modernizing their data architecture and processes, which is a prerequisite before they could take advantage of AI. Here is the CEO of Accenture again on the company's recent earnings call: *"All are interested in AI, and particularly, generative AI. But most* ***recognize the work ahead of them to get their data, people, and processes ready for GenAI****. To reinvent requires a strong modern digital core."*
- As customers benefit from greater productivity, history suggests that they are likely to spend more, not less – productivity enhancements have been ongoing for years and have not driven a decline in demand. On the contrary, the expanded opportunity set and demonstrably high returns on investments have proven to be reliable catalysts in the past.

- Digital IT services companies focus on helping their clients build new products and improve existing ones as opposed to mundane maintenance or business process outsourcing work. It is unclear to us whether this type of end-to-end work from ideation to implementation can be automated with AI.
- Both Endava and EPAM are trading near multi-year low valuation multiples on cyclically impacted earnings – this offers a significant margin for safety for long–term shareholders, in our view.

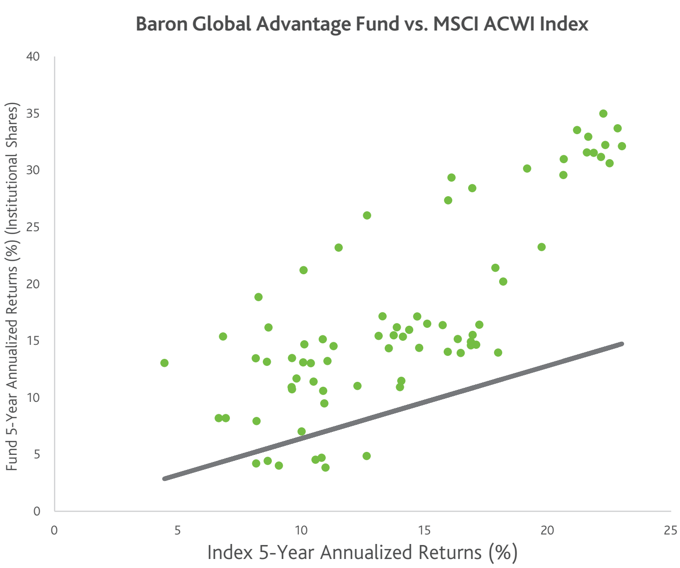
Having investments in areas that are undergoing a disruptive change is never easy, particularly when it coincides with challenging macro-economic ***and*** geo-political times. The majority of market participants focus, and act based on their near-term expectations. Sometimes, that creates inefficiencies and opportunities for long-term oriented investors. We have identified opportunities in companies that we believe have been erroneously placed into the losers' bucket and companies that market participants are likely to underestimate their duration of growth. Human beings are much better at thinking linearly as opposed to exponentially[4] and have historically underestimated the steep parts of the S-curves as disruptive change occurs. The rate of change, the velocity of change in GenAI is breakneck. New AI models are introduced almost on a weekly cadence, outperforming existing, state-of-the-art models, which themselves were much better than models released just months prior. We have also moved beyond models. GenAI is now diagnosing rare diseases that had gone undiagnosed for years, creating new musical and photographic content indistinguishable from similar content made by humans, and creating virtual avatars that can fool both family members and voice authentication systems. Mark Andreesen launched the Mosaic browser in 1993 in the process, making the internet accessible to everyone. Someone recently suggested that the launch of ChatGPT in 2022 will do the same for GenAI. If they are right… we are in for an exciting ride!

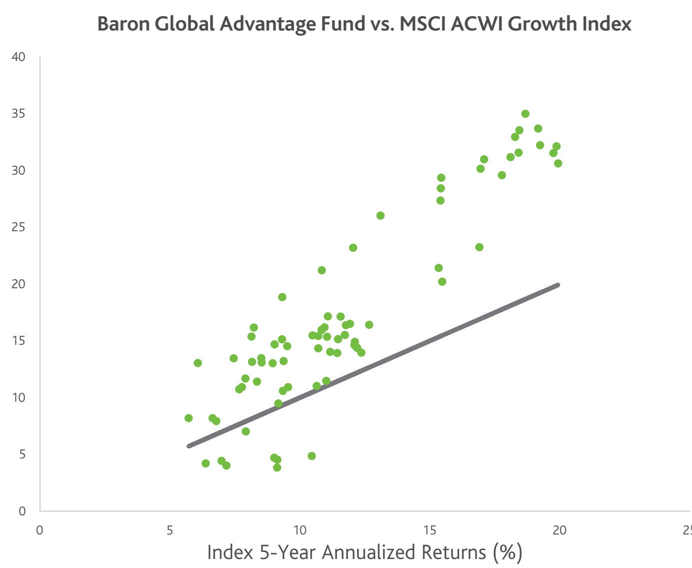
**Percentage of time Fund outperformed over different time periods from inception through June 30, 2023**

| Rolling Return Period | 1 Month | 3 Months | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|---|---|
| Outperformance vs. MSCI ACWI Index | 60% | 62% | 67% | 81% | 91% | 100% |
| Outperformance vs. MSCI ACWI Growth Index | 56% | 58% | 65% | 76% | 89% | 87% |
| Outperformance vs. Morningstar Global Large-Stock Growth Category Average | 57% | 61% | 66% | 82% | 91% | 100% |
| Outperformance vs. Lipper Global Multi-Cap Growth Category Average | 57% | 62% | 66% | 81% | 91% | 100% |

*Sources: BAMCO, MSCI Inc., Morningstar Direct, and Refinitiv.*
*The performance data quoted represents past performance. Past performance is no guarantee of future results. The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in an index.*

**5-year rolling return scatterplot charts as of June 30, 2023**




*Sources: BAMCO and MSCI Inc.*

4 https://hbr.org/2017/05/linear-thinking-in-a-nonlinear-world

**Table II.**
**Top contributors to performance for the quarter ended June 30, 2023**

| | Quarter End Market Cap (billions) | Percent Impact |
|---|---|---|
| NVIDIA Corporation | $1,044.9 | 2.84% |
| Shopify Inc. | 82.8 | 1.76 |
| Bajaj Finance Limited | 52.9 | 1.14 |
| Datadog, Inc. | 31.7 | 1.05 |
| Schrodinger, Inc. | 3.6 | 0.95 |

**NVIDIA Corporation** is a fabless semiconductor company focused on designing chips and software for gaming and accelerated computing. Shares continued their torrid first quarter rise, increasing 52.3% in the second quarter (now up 190% year-to-date), after the company reported a meaningful acceleration in demand for its data center GPUs, which drove a material guidance beat with revenues expected to increase from $7.2 billion to approximately $11 billion sequentially. This unprecedented acceleration is driven by growing demand for GenAI. We are at the tipping point of a new era of computing with NVIDIA at its epicenter. While the opportunity within the data center installed base is already large at approximately $1 trillion, the pace of innovation in AI in general, and GenAI in particular, should drive a significant expansion in the addressable market, as AI creates a new way for human-computer interaction through language, and as companies are better able to utilize their data for decision making. We remain shareholders as we believe NVIDIA's end-to-end AI platform and the ecosystem it has cultivated over the last 15 years will benefit the company for years to come.

**Shopify Inc.** is a cloud-based software provider for multi-channel commerce. Shares continued on their upward trajectory from the prior quarter and were up 34.8% in the second quarter as the company announced the sale of its capital-intensive logistics business to Flexport along with a 23% reduction in its workforce, significantly improving the company's margin profile. Quarterly results were solid, with 15% year-over-year growth in gross merchandise value and 25% growth in revenue driven by the growing adoption of its merchant solutions. In addition, the sale of its logistics business to Flexport was well received by investors. The sale allows Shopify to focus on its core strengths – developing its best-in-class software and its strong ecosystem. We remain shareholders due to Shopify's strong competitive positioning, innovative culture, and long runway for growth as it still holds less than a 2% share of global commerce spending. We believe that the company's accelerated pace of innovation will enable it to continue moving up market (for example, with the recently announced Commerce Components by Shopify), which would further expand its opportunity.

**Bajaj Finance Limited** contributed to performance. Shares rose 28.1% during the quarter on improving earnings visibility and growth prospects as we near the end of the rate hike cycle in India, and as Bajaj demonstrates early signs of success with the scaling of its digital/omnichannel platform. As a leading, data-driven, non-bank financial company in India, the company is well positioned to benefit from growing demand for consumer financial services such as mortgages, personal & credit card loans, vehicle financing, and other related products. We remain investors due to its best-in-class management team, robust long-term growth outlook, and conservative risk management frameworks.

**Table III.**
**Top detractors from performance for the quarter ended June 30, 2023**

| | Quarter End Market Cap or Market Cap When Sold (billions) | Percent Impact |
|---|---|---|
| Think & Learn Private Limited | $13.2 | –2.35% |
| Endava plc | 2.9 | –1.49 |
| MercadoLibre, Inc. | 59.5 | –0.87 |
| Illumina, Inc. | 29.6 | –0.56 |
| EPAM Systems, Inc. | 13.0 | –0.53 |

**Think & Learn Private Limited**, the parent entity of Byju's – the Learning App, detracted during the quarter. Weak performance was driven by a marked slowdown in business momentum as COVID-related tailwinds that benefited online/digital education have begun to dissipate. The Fund made an investment in Think & Learn in the second quarter of 2021 as part of a private round of financing. We are under an NDA with the company and are constrained in what we can share with our investors. As India's largest edtech player, the company has a significant opportunity to benefit from structural growth in online education services in the country.

**Endava plc** provides outsourced software development for business customers. Shares fell 22.9% during the second quarter due to investor concerns over the negative potential impact of GenAI on the company as well as a pullback in customer demand following the Silicon Valley Bank crisis in March, which drove increased customer cautiousness. Management reduced financial guidance for the second quarter to reflect greater macroeconomic uncertainty and lower revenues from private equity-backed companies, which represent about 20% of its business. Sales activity has since rebounded, which supports management's view that the current slowdown is temporary and demand for digital transformations should persist. Management also believes GenAI will be a tailwind for its business. We continue to own the stock because we believe Endava will continue gaining share in a large global market for IT services as digitization only becomes more important for customers to sustain their competitive positioning and take advantage of the advancements in AI.

**MercadoLibre, Inc.** is the largest e-commerce marketplace in Latin America. After surging in the first quarter of the year, the stock gave up some gains this quarter, correcting 10.1% as investors took profits and as the spread between the formal and unofficial Argentine peso exchange rates widened and raised the risk of a currency devaluation that could negatively impact the company's P&L. Nevertheless, business fundamentals remain solid with the company reporting strong financial results with first quarter revenues up 58% year-over-year in constant currency, gross merchandise volume up 43%, total payment volume up 96%, and operating margins up 500bps year-over-year. We remain investors. MercadoLibre's market share gains have started to decouple from its closest competitors, particularly in its key market Brazil, and we believe it will become the dominant e-commerce business across Latin America (including Mexico), with rising returns on capital and an expanding fintech business that has successfully navigated recent macro and interest rate volatility in Brazil.

## Portfolio Structure

The portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level having the most significant roles in determining the size of each individual investment. Sector and country weights are an outcome of the stock selection process and are not meant to indicate a positive or a negative view.

As of June 30, 2023, the top 10 positions represented 51.0% of the Fund and the top 20 represented 78.1%. As we articulated earlier in the year, we have now returned to a more concentrated portfolio as the market volatility enabled us to consolidate the portfolio in our highest conviction ideas. Top 10 and top 20 positions were 45.9% and 73.0% in December 2022, and 42.5% and 61.9% in December 2021, respectively. We ended the quarter with 38 investments, down from 41 at the end of December 2022.

Our investments in the IT, Consumer Discretionary, Financials, Health Care, Industrials, and Communication Services (as classified by GICS) sectors represented 97.9% of the Fund's net assets. Our investments in non-U.S. companies represented 48.6%, while companies classified as being in emerging markets were 17.4% of net assets. An additional 8.8% is invested in companies based in Argentina, which falls outside of MSCI's developed/emerging/frontier markets framework.

**Table IV.**
**Top 10 holdings as of June 30, 2023**

| | Quarter End Market Cap (billions) | Quarter End Investment Value (millions) | Percent of Net Assets |
|---|---|---|---|
| NVIDIA Corporation | $1,044.9 | $62.0 | 7.8% |
| MercadoLibre, Inc. | 59.5 | 56.7 | 7.1 |
| Shopify Inc. | 82.8 | 47.0 | 5.9 |
| Snowflake Inc. | 57.4 | 42.2 | 5.3 |
| Bajaj Finance Limited | 52.9 | 37.0 | 4.6 |
| CrowdStrike Holdings, Inc. | 34.8 | 35.2 | 4.4 |
| Endava plc | 2.9 | 34.1 | 4.3 |
| Tesla, Inc. | 829.7 | 33.9 | 4.2 |
| Coupang, Inc. | 31.0 | 30.6 | 3.8 |
| Adyen N.V. | 53.6 | 28.0 | 3.5 |

**Table V.**
**Percentage of securities by country as of June 30, 2023**

| | Percent of Net Assets |
|---|---|
| United States | 51.0% |
| Netherlands | 9.7 |
| Argentina | 8.8 |
| India | 8.4 |
| Canada | 5.9 |
| United Kingdom | 4.3 |
| Korea | 3.8 |
| Poland | 2.1 |
| Israel | 1.8 |
| Brazil | 1.6 |
| China | 1.5 |
| Spain | 0.8 |

## Recent Activity

During the second quarter, we eliminated one investment. We sold our position in **MaxCyte**, a life sciences tools company offering an electroporation platform for cell and gene therapy. While the opportunity ahead remains vast, we preferred to reallocate proceeds to companies in which we saw a better risk/reward profile.

During the quarter we also increased the size of our position in Tesla.

**Table VI.**
**Top net purchases for the quarter ended June 30, 2023**

| | Quarter End Market Cap (billions) | Net Amount Purchased (millions) |
|---|---|---|
| Tesla, Inc. | $829.7 | $1.7 |

Despite the near-term demand headwinds **Tesla, Inc.** is facing due to rising interest rates that reduce purchase affordability for consumers, which led the company to reduce prices that in turn negatively impacted its near-term gross margins, we decided to modestly increase our position in the company. Our conviction in Tesla's unit economic advantages has grown following our visit to the company in March and multiple discussions with management. Its vertically integrated strategy, scale advantages, cost leadership, and commitment to innovative thinking based on first principles have solidified our belief in its competitive edge and ability to continuously improve. These advantages are particularly crucial during challenging macroeconomic periods, setting Tesla apart from competitors lacking similar strengths. Furthermore, we anticipate these advantages will extend to Tesla's upcoming car platform, which will feature smaller vehicles at lower price points, necessitating significant cost savings compared to the Model 3. Additionally, our confidence in Tesla's energy storage business has strengthened as deployment volumes have finally begun to surge after years of anticipation. We remain confident in Tesla's fundamentals and management team and believe that with still less than a 2% market share, the company remains well positioned to enjoy a long runway of growth as the market shifts to electric vehicles.

**Table VII.**
**Top net sales for the quarter ended June 30, 2023**

| | Quarter End Market Cap or Market Cap When Sold (billions) | Net Amount Sold (millions) |
|---|---|---|
| Veeva Systems Inc. | $31.7 | $10.8 |
| Taboola.com Ltd. | 1.1 | 8.2 |
| MaxCyte, Inc. | 0.5 | 7.2 |
| Datadog, Inc. | 31.7 | 5.5 |
| CrowdStrike Holdings, Inc. | 34.8 | 5.1 |

## Outlook

The recently released economic reports continue to show that inflation is moderating. The headline CPI number is now back to 3.0%, the lowest level since March 2021. If you think about it, inflation has fallen roughly as fast as it has risen. Could the Fed have been right all along? Was inflation transitory?

The 10-year break-even inflation remains steady in the 2.0% to 2.5% range and real rates (as measured by 10-year TIPS) while moving up from the lows of around 1.1% reached shortly after the collapse of Silicon Valley Bank, are still in favorable territory at around 1.5%. "For the United States, growth has slowed, but our labor market continues to be quite strong. I don't expect a recession," Treasury secretary Janet Yellen said in a recent speech. "The most recent inflation data were quite encouraging." There we have it. While the Fed is expected to raise rates a quarter of a percent once or twice more, it is clear that we are closer to the end of the rate hike cycle. That, coupled with most of our companies reporting stabilizing trends in their businesses and leaner cost structures, creates a favorable backdrop for growth stocks in our view.

To assess the outlook for our Fund, we find it informative to look at the underlying growth in the fundamentals of our businesses and compare it with the change in their stock prices. In 2022, the Fund's weighted average multiple contract 57%. During the first half of 2023, the Fund's weighted average multiple on next-12-month estimates[5] was up 18% and in the second quarter it was up 2%. However, we believe these numbers overstate the actual multiple expansion as it includes a 78% revenue multiple expansion for **Shopify** (6.1x to 10.8x) year-to-date. This is because Shopify has seen a material expansion in margins and profits following the announced sale of its logistics business to Flexport, along with a 23% reduction in its workforce. If we instead include Shopify's P/E multiple in the calculation, which declined by 85% year-to-date, the weighted average multiple of the portfolio is up only 7.5% year-to-date and down 4.5% during the second quarter. Additionally, the weighted average 2023 operating profit estimates for the portfolio were up 12.5% year-to-date and 8.6% during the second quarter (this calculation excludes Shopify because its operating profit estimates shot up 925% and 739%, respectively, so the overall operating profit expansion for the portfolio is higher). The weighted average expected revenue growth for the portfolio in 2023 is now 32.7% and the weighted average growth in fundamentals (which is a mix of revenues and profits depending on whether the company is already profitable) is an even stronger 49%. If we exclude the biotechnology company **argenx**, which is seeing a massive ramp in revenues in 2023 due to the commercialization of efgartigimod (Vyvgart), and **Rivian**, which is seeing a significant ramp in production from low numbers, the weighted average revenue growth would have been 27.5%. While a wide range of outcomes due to the challenging macro environment remain, the fact that our companies can continue growing revenues at this rapid pace (revenues grew at 33.4% in 2022 on average excluding Rivian) speaks to the quality of their business models and to their resiliency. This makes us optimistic about the long-term outlook.

Every day we live and invest in an uncertain world. Well-known conditions and widely anticipated events, such as Fed rate changes, ongoing trade disputes, government shutdowns, and the unpredictable behavior of important politicians the world over, are shrugged off by the financial markets one day and seem to drive them up or down the next. We often find it difficult to know why market participants do what they do over the short term. The constant challenges we face are real and serious with clearly uncertain outcomes. History would suggest that most will prove passing or manageable. The business of capital allocation (or investing) is the business of taking risk, managing the uncertainty, and taking advantage of the long-term opportunities that those risks and uncertainties create.

We are optimistic about the long-term prospects of the companies in which we are invested and continue to search for new ideas and investment opportunities while remaining patient and investing only when we believe the target companies are trading at attractive prices relative to their intrinsic values.

Sincerely,

Alex Umansky
Portfolio Manager

[5] Based on FactSet consensus estimates which are either revenue or earnings estimates, depending on the specific stock and whether it has material near-term profits so that a P/E ratio would be meaningful.



**Price/Earnings Ratio (next 12-months)**: is a valuation ratio of a company's current share price compared to its mean forecasted 4 quarter sum earnings per share over the next twelve months. If a company's EPS estimate is negative, it is excluded from the portfolio-level calculation.